Legislative Audit Division

State of Montana

Report to the Legislature

November 2003

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2003

Department of Public Health and Human Services

The department has improved its overall financial control structure since the last audit. This report contains 16 recommendations related to specific compliance concerns in the department programs. Issues addressed in this report include:

- **$724,004 in questioned costs on federal grants that did not meet earmarked expenditure requirements.**
- **$268,563 deficiency in state expenditures required by a federal grant agreement.**
- **Improvement of monitoring controls for federal grants.**
- **Reporting revenue receivables.**

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2003, will be issued by March 31, 2004. The Single Audit Report for the two fiscal years ended June 30, 2001, was issued on March 26, 2002. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
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November 2003

The Legislative Audit Committee
of the Montana State Legislature:

This is our report on the financial-compliance audit of the Department of Public Health and Human Services for the two fiscal years ended June 30, 2003. This report includes recommendations concerning compliance with earmarked expenditure requirements for federal grants, meeting the level of state expenditure required by federal grants, improving the monitoring of federal grants recipients, and reporting revenue receivable in compliance with state accounting policy.

We thank the director and her staff for the assistance and cooperation provided during the audit.

Respectfully submitted,

Signature on File

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Legislative Auditor

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Legislative Audit Division

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 2003

Department of Public Health and Human Services

Members of the audit staff involved in this audit were Laurie Barrett, John Fine, Melissa Heinert, Geri Hoffman, Brenda Kedish, Hollie Koehler, Amber Long, Jim Manning, Laura L. Norris, Alexa O'Dell, Sonia Powell, Jennifer Solem, Jeff Tamblyn, and Joyce Weber.

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	Mike Billings, Administrator Operations and Technology Division
	Mary Dalton, Administrator Quality Assurance Division
	Kelly Williams, Administrator Senior and Long Term Care Division
	Chuck Hunter, Administrator Office of Program Finance

Department of Public Health and Human Services

We performed a financial-compliance audit of the Department of Public Health and Human Services (PHHS) for the two fiscal years ended June 30, 2003. We determined the status of audit recommendations made to PHHS in the previous audit. Of the 24 recommendations still applicable to the agency, PHHS implemented 20, partially implemented 2 and did not implement 1. One recommendation is no longer applicable to the department.

We issued an unqualified opinion on the financial schedules for each of the two years under audit. The opinion is located on page A-3. The reader may rely on the presented financial information and the supporting data on the Statewide Accounting, Budgeting and Human Resources System.

This audit report contains 16 recommendations to PHHS. The issues discussed in this report include noncompliance with federal regulations concerning cash management, earmarking, and reporting.

PHHS management's response to our recommendations starts on page B-3 of the report document. The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

Recommendation #15

We recommend the department:

A. Match expenditures and revenue for each grant in accordance with state accounting policy.

Department Response: Concur. See page B-6.

B. Record receivables in accordance with state accounting policy.

Department Response: Concur. See page B-6.

C. Record Medicaid expenditure and revenue accrual reductions consistently on the state's accounting records......22

Department Response: Concur. See page B-7.

Recommendation #16

We recommend the department:

A. Execute agreements with counties setting standards for operation of offices of public assistance as required by section 53-2-305(1), MCA.

Department Response: Concur. See page B-7.

B. Adopt rules necessary to implement the trauma care system in compliance with sections 50-6-402 and 50-6-410, MCA.

Department Response: Concur. See page B-7.

C. Adopt rules establishing medical assistance benefits for children with an adoption assistance agreement as required by section 42-10-127, MCA......23

Department Response: Concur. See page B-7.

Introduction

Introduction and Scope of Audit

We performed a financial-compliance audit of the Department of Public Health and Human Services (PHHS) for the two fiscal years ended June 30, 2003. The objectives of the audit were to:

1. Determine if the department complied with applicable federal and state laws and regulations.

2. Review the department's internal, financial operation, and administrative controls and make recommendations for their improvement.

3. Determine if the department's financial schedules present fairly, in accordance with state accounting policy, the results of operations for the fiscal years ended June 30, 2002 and 2003.

4. Determine the implementation status of prior audit recommendations for which the department was responsible.

This report contains 16 recommendations to the department. These recommendations address areas where the department can improve controls, accounting procedures, and compliance with federal and state laws and regulations. Other concerns deemed not to have a significant effect on the successful operation of department programs have been discussed with department management and are not included in this report. In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations in this report.

Background

PHHS expends more than $1 billion annually administering social service and health programs for the state of Montana. The programs include Medicaid, economic assistance, developmental disabilities services, vocational rehabilitation, child and adult protective services, mental health, substance abuse prevention and treatment, and public health services, including immunizations and disease control. PHHS operates two mental health facilities, two veterans' homes, a facility for the developmentally disabled, and a substance abuse treatment center.

Total expenditures by fund, as recorded for PHHS, are identified below for the two fiscal years ended June 30, 2002, and 2003.

Benefits and Claims expenditures account for 74 percent of the total expenditures in these fiscal years.

Table 1

Total Expenditures by Fund (in thousands)

	FY 2001-02	FY 2002-03
General Fund	$ 270,377,348	$ 255,805,775
State Special Revenue Fund	30,719,803	30,610,842
Federal Special Revenue Fund	742,389,337	786,848,117
Debt Service Fund	3,009,203	3,181,532
Permanent Fund	1,037,619	1,808,027
Total	$ 1,047,533,309	$ 1,078,254,293

Source: Compiled by the Legislative Audit Division from PHHS accounting records.

As of September 12, 2003, the department is organized into eleven divisions. These divisions are Addictive and Mental Disorders, Child and Family Services, Child and Adult Health Resources, Child Support Enforcement, Disability Services, Fiscal Services, Public Health and Safety, Human and Community Services, Operations and Technology, Quality Assurance, and Senior and Long Term Care. A current organizational chart showing programs, services, and the distribution of the department's 2,791.48 budgeted full-time equivalent employees (FTE) for fiscal year 2003-04 by division is on page 3.

Department of Public Health and Human Services
Program Organizational Chart

Governor
Judy Martz

Department Director
Gail Gray
38.75 FTE

- Prevention Resource Center - Vicki Turner
- Office of Legal Affairs - Russ Cater
- Office of Human Resources - Carol Seaman
- Administrative Officer - Ken Pekoc
- Deputy Director - John Chappuis
  - Office of Program Finance - Chuck Hunter
  - (Medicaid)

Child and Family Services Division
Shirley K. Brown
337.95 FTE
- Adoption Services
- Centralized Intake
- Child Protective Services
- Children's Trust Fund
- Domestic Violence Services
- Family Preservation & Support Services
- Foster Care Services

Child Support Enforcement Division
Lonnie J. Olson
175.25 FTE
- Administrative Law Judge
- Central Case Registry
- Collection and Distribution of Payments
- Financial & Medical Support Order Establishment
- Paternity Establishment
- Support Order Enforcement
- Support Order Modification

Fiscal Services Division
Mick Robinson
54 FTE
- Fiscal Management Services
- Fiscal Policy
- Institutional Reimbursement
- Internal Support/ Purchasing
- Payroll

Operations and Technology Division
Mike Billings
78.50 FTE
- Budget & Program Analysis
- Computer Application Services
- Computer Systems Management
- Internal Support
  - *Fleet Management*
  - *Lease Management*
  - *Mail Room Services*
- Management Info. Services
- Microcomputer & Network Services
- Technology Planning
- Vital Statistics

Public Health and Safety Division
Maggie Bullock
162.52 FTE
- Chronic Disease
- Emergency Medical
- Environmental Lab
- Epidemiology
- Food & Consumer Safety
- Health Planning
- Maternal & Child Health
- Office of Public Health System Improvement
- Preventive Health
- Public Health Emergency Preparedness
- Public Health Lab
- Public Health Service Women, Infant, Children (WIC)s

Quality Assurance Division
Mary Dalton
108.70 FTE
- Audit
- Certification
- Certificate of Need
- Facility Licensing
- Fair Hearings
- Network Adequacy
- Fraud and Program Compliance
- Surveillance Utilization & Review
- Third Party Liability

Human and Community Services Division
Hank Hudson
452.20 FTE
- Abstinence Program
- Child & Adult Food Programs
- Child Care Services
- Eligibility Determination Services
- Community Services Block Grant
- Food Commodities
- Food Stamp Program
- Head Start Collaboration Grant
- Homeless Assistance
- LIEAP/Weatherization
- Refugee Services
- TANF/Welfare Reform Services

Addictive and Mental Disorders Division
Dan Anderson
567.75 FTE
- Adult Mental Health Services
- Chemical Dependency Prevention & Treatment
- Inpatient Chemical Dependency Services
- Inpatient Psychiatric Hospital Services
- Inpatient Psychiatric Nursing Home Services

Child and Adult Health Resources Division
John Chappuis (Acting)
49 FTE
- Children's Health Insurance Plan (CHIP)
- Children's Special Health
- Children's Mental Health
- Medicaid Primary & Acute Care

Disability Services Division
Joe Matthews
573.42 FTE
- Developmental Disabilities Program
- Disability Determination Services
- Eastmont Human Services Center
- Montana Developmental Center
- Montana Telecommunications Access Program
- Vocational Rehabilitation Program

Senior and Long Term Care Division
Kelly Williams
193.44 FTE
- Adult Protective Services
- Aging Services
- Centralized Services
- Home & Community Based Services
- Long Term Care Services
- Nursing Facility Services
  - *Eastern Montana Veterans Home*
  - *Montana Veterans Home*

Source: Compiled by the Legislative Audit Division from PHHS data.

Prior Audit Recommendations

We determined the status of the 24 prior audit recommendations directed to the department. The department implemented 20, partially implemented 2, and did not implement 1. One recommendation was no longer applicable to the department. The recommendation not implemented concerns monitoring of vouchers for the Supplemental Nutrition for Women, Infants, and Children program and is discussed on page 14. The department partially implemented the recommendation on reconciling subsystems to the state's accounting records. We discuss the Child Support Enforcement reconciliation on page 18. The department corrected many of the accounting issues disclosed in our last report, but the issue related to accrual and deferral of grant revenue is discussed further on page 21.

PHHS management made significant progress toward improving the department's financial control structure. Control enhancements included streamlining the cost allocation process, implementing more frequent cash draws for federally funded administrative and program costs, reducing the use of inter-entity loans, performing reconciliations of financial subsystems to the state's accounting records, and initiating an active internal audit function.

Questioned Costs

In the report sections that follow, we identify as questioned costs expenditures of federal assistance that do not comply with regulations of the federal program. Under federal audit requirements, the auditor questions costs associated with an audit finding when the costs result from a violation or probable violation of law or regulation governing the use of federal funds, when the costs are not supported by adequate documentation at the time of the audit, or when the costs incurred appear unreasonable. When federal program personnel resolve the audit issues and set corrective action plans, the federal government may require repayment, reduce the current federal award, or take no financial action on the questioned cost.

Table 2

Summary of Questioned Costs

Grant Title	Amount Questioned	Report Page
Substance Abuse Prevention & Treatment	$ 268,563	7
Substance Abuse Prevention & Treatment	$ 724,004	8
Vocational Rehabilitation	$ 12,264	10

Source: Compiled by the Legislative Audit Division.

Findings and Recommendations

Federal Compliance Issues

The department receives financial assistance from several federal agencies to operate various assistance and service programs. The primary grantors of federal assistance include the U. S. Departments of Agriculture, Education, Energy, and Health & Human Services. The department expended approximately $708,210,850 and $748,823,662 of federal assistance in fiscal years 2001-02 and 2002-03, respectively. We performed tests to evaluate the department's controls and compliance with selected federal regulations. We identified areas related to several grants where the department could improve procedures to comply with federal laws and regulations. These are discussed below.

Substance Abuse, Prevention and Treatment Block Grant

The department administers the Substance Abuse, Prevention and Treatment (SAPT) block grant. During fiscal years 2001-02 and 2002-03, the department recorded SAPT expenditures of $5,500,030 and $7,725,566, respectively. The department submits an annual application and receives a block grant allotment each year. Each year's grant must be obligated and expended by the end of the year subsequent to the year for which the award was made. In addition, federal regulations specify expenditure categories for each grant and require the state to maintain a level of expenditure effort related to SAPT grant activities. In the following two sections, we discuss issues related to compliance with maintenance of effort and expenditure earmarking requirement.

State Expenditure Effort

Federal regulations require the state of Montana to spend state resources on substance abuse prevention and treatment programs as a condition of receiving an allocation of the federal SAPT block grant. To meet the required state expenditure standard, commonly called "maintenance of effort," the department must show that state funds spent in a fiscal year equal or exceed the average of the amounts spent by the state in the preceding two fiscal years.

We reviewed the level of state expenditure effort reported by the department for state fiscal year 2001-02 in its application for federal fiscal year 2002-03 funding. The state expenditures reported were $268,563 less than the average expenditures for the two previous fiscal years. As a result, we question $268,563 in SAPT costs. The federal government delayed approval of the federal fiscal year 2002-03 funding authority for 11 months, citing deficiencies in state expenditure effort for two previous fiscal years.

Recommendation #1
We recommend the department maintain state expenditures for substance abuse at the level required by the Substance Abuse Prevention & Treatment grant.

Earmarking

Federal law sets certain limits to guide the use of SAPT block grant funds. To comply with these limits, the department must spend at least 20 percent of each grant on prevention activities and no more than five percent of each grant on program administration.

We reviewed the accounts on the state's accounting records used to track expenditures for various categories of grant activity. We noted the department expenditures for prevention were $166,473 less than the 20 percent required for the federal fiscal year 2000-01 grant. Since 20 percent of the grant must be expended on prevention, we question $724,004, the amount by which total grant expenditures exceeded five times the valid prevention program charges.

Recommendation #2
We recommend the department increase prevention activities to meet Substance Abuse Prevention & Treatment grant requirements.

Vocational Rehabilitation

The Department of Public Health and Human Services administers the vocational rehabilitation program. The program received federal assistance of $9,892,944 and $9,698,413 in fiscal years 2001-02 and 2002-03, respectively. The following three sections discuss situations where the department can improve compliance with federal requirements related to vocational rehabilitation.

Vocational Rehabilitation Eligibility

Individuals qualify for vocational rehabilitation services if they have a physical or mental impairment that impedes their employment, they have employment capability, and vocational rehabilitation services are required to secure, retain, or regain employment.

Clients in Montana must also meet certain financial resource criteria. Federal regulations require states that choose to use financial needs tests for one or more types of vocational rehabilitation services to apply those tests to all individuals uniformly.

We tested client files for documentation of disability and financial eligibility criteria. Of the 74 client files reviewed for eligibility, three clients received services when information in the client's file indicated they were not financially eligible.

- One client reported a monthly income greater than the program limit on the initial application. The department provided services. When we asked about the error, the department obtained additional documentation demonstrating that the client's income for a period of several months met the income limit. Documentation of this fact was not in the client file.

- A second client reported resources in excess of the program limit on the initial application. An updated financial status form completed two years later reported resources less than the limit. The department provided financial services to the individual during this two-year period even though the documents in the file showed the client was not eligible.

- A third client had been in a car accident and qualified for services at the time of application. A year later the client received a settlement related to the accident. As a result, the client no longer met the financial resources restrictions and services were discontinued. When the department received a letter from the client's attorney stating the funds would be placed in a trust for future medical expenses, the department resumed providing services to the client. The client did not furnish documentation that the settlement fund had been placed in a trust. We were unable to determine that the trust had been established.

The department provided $15,330 in vocational rehabilitation services to the three clients while documentation indicated the individuals had not met financial eligibility requirements. Applying the 80 percent federal participation rate, we question $12,264 in federal costs. Department personnel can ensure services are only furnished to eligible applicants by documenting financial eligibility in the files before services are provided.

Recommendation #3
We recommend the department strengthen procedures to ensure client files document resource eligibility requirements before vocational rehabilitation services are provided.

Period of Availability

Federal regulations for vocational rehabilitation assistance state that the grant for each federal fiscal year must be obligated in the year of the award and expenditures paid by the end of the subsequent year. If an obligation is for personal services by an employee of the state or subgrantee, the obligation is made when the services are performed.

The department charged payroll expenditures to the federal fiscal year 2002 (October 1, 2001 through September 30, 2002) Vocational Rehabilitation Services Program grant as late as the pay period ending February 21, 2003. A total of $6,568 of payroll expenditures were charged to the federal fiscal year 2002 grant after the grant period had ended.

Recommendation #4
We recommend the department charge only payroll costs incurred within the grant period.

Reporting

To comply with federal regulations, the department must submit a RSA-2 Program Cost Report for the Vocational Rehabilitation Services Program for each federal fiscal year. The report shows all expenditures made during the period, including expenditures charged to federal funds carried over from the previous fiscal year. For purposes of preparing this report, expenditures include unliquidated obligations. The RSA-2 report is due to the federal government on January 31 following the end of the federal fiscal year.

We noted that the federal fiscal year 2002 RSA-2 Program Cost Report was submitted with five line items reporting numbers from the federal fiscal year 2001 report. The errors totaled $164,075 and netted to a $56,659 overstatement of costs. Department personnel said the previous year's numbers were reported in error. A comparison of reported expenditures to expenditures on the state's accounting records for the period would have detected the error.

Recommendation #5
We recommend the department ensure the RSA-2 Program Cost Report includes only costs related to the period covered by the report.

Foster Care

The department operates the Foster Care and Adoption Assistance programs with federal financial assistance under provisions of Title IV-E of the Social Security Act. The two programs, which formerly were administered within one fund, still share certain cash draw and quarterly reporting procedures. In the following three sections, we discuss ways compliance with cash management and reporting requirements for Title IV-E programs can be improved.

Expenditure Records

The department allocates certain administrative costs for Foster Care and Adoption Assistance based on the level of program activity. In the first step of a two-part process, the department's cost allocation system identifies the costs of the two programs as a single Title IV-E program unit. Then department personnel complete the allocation with a manual procedure to separate costs of the two programs.

In fiscal year 2002-03, department staff did not complete the allocation of costs between Foster Care and Adoption Assistance. As a result, Foster Care expenditures were overstated and Adoption Assistance expenditures were understated by $1,322,428 for the fiscal year on the state's accounting records.

In addition, we reviewed the quarterly financial report for the Title IV-E programs for the period ended September 30, 2002 and found a difference of $235,906 between the amounts reported and the state's accounting records. Although the department identified most of this difference as related to the timing of recording allocated administrative costs, department staff did not reconcile the report to the accounting records.

A department manager said the department has started work on a revision to the cost allocation module to automate the allocation of costs between Foster Care and Adoption Assistance. Until two years ago, the department recorded fiscal activity of the two programs in the same account on the state's accounting records. For each allocation of costs between the programs for reporting purposes, department personnel manually entered accounting data and allocation factors into a complex group of spreadsheets. By allocating costs to Foster Care and Adoption Assistance separately as part of the department's existing automated process, the department can improve the accuracy and efficiency of its allocation process for these two grants.

Recommendation #6
We recommend the department improve the accuracy of its administrative cost allocation to the Foster Care and Adoption Assistance programs.

Foster Care Transfers

The department draws federal funds through the Title IV-E foster care program for administrative expenses for both the Foster Care and the Adoption Assistance programs. Amendment Six to the state's Cash Management Improvement Act (CMIA) agreement requires the department to transfer weekly from the Foster Care program to the Adoption Assistance program certain amounts drawn for administrative expenses.

The department did not transfer funds to Adoption Assistance as required by the CMIA agreement. Department personnel assigned to draw federal cash were not aware of the CMIA requirement to transfer federal funds. Supervisory review of the state's accounting records could have detected the fact that the weekly transfers were not made.

Recommendation #7

We recommend the department provide supervisory oversight to ensure personnel make weekly transfers from the Title IV-E Foster Care program to the Adoption Assistance program for administrative expenses in compliance with the federal cash management agreement.

Foster Care Cash Draws

The department draws federal foster care money on a reimbursement basis in accordance with an agreement, executed in compliance with the federal government under the Cash Management Improvement Act (CMIA). To calculate the amount and track the timing of draws, the department prepares spreadsheets and reconciles the cash draws to the accounting system. We found instances where the department did not draw Foster Care cash in compliance with terms of the CMIA agreement. The following describes some cash draw errors made by department personnel:

- There were no recorded expenditures, but $5,279 was drawn.
- Expenditures of $2,640 were recorded, but the cash draw was $57,542.
- Expenditures of $159,764 were recorded, but that amount was credited to the federal government instead of drawn.
- Expenditures of $120,681 were recorded, but the cash draw was $6,120.

- Expenditures of $8,762 for indirect costs were recorded, but the department did not draw cash.

- Expenditures of $742,926 were recorded at the end of the year, but were not drawn immediately. We could not determine when the draw occurred.

In other cases, the department did not draw the appropriate expenditure amount on the date dictated by the CMIA agreement. Department fiscal policy states that all CMIA schedules should be reviewed and reconciled on a monthly basis. Had the department performed timely reconciliations of Foster Care cash draws to the CMIA schedule of expenditures, the pattern of errors could have been detected. Department personnel said reconciliations for Foster Care draws did not occur in fiscal year 2002-03.

Recommendation #8
We recommend the department perform reconciliations of Foster Care cash draws according to department policy to ensure compliance with federal requirements.

Women, Infants, and Children Program

The department receives funding from the federal government to administer the Supplemental Nutrition for Women, Infants, and Children (WIC) program. Under the WIC program, the department provides vouchers to eligible households to purchase specific food items. To implement the program, the department contracts with various local organizations to determine eligibility of participants and to issue vouchers. The department spent $13,792,099 and $12,381,209 of federal WIC assistance in fiscal years 2001-02 and 2002-03, respectively. The following three sections discuss compliance concerns related to the WIC program.

Dual Certification

Federal regulations require the department to prevent participants from receiving WIC benefits more than once each month. To implement this requirement, existing department procedures specify that the department will prepare a report from its records monthly to identify clients certified to participate more than once in WIC in that month.

In one 12-month period, the department ran and reviewed this report twice in the month following the WIC activity, completed the review for an additional four months after the time the review could have identified and prevented dual participation, and did not review the report for six months. As a result, the department did not comply with the federal requirement to identify dual participation. By not reviewing activity reports, the department raises the risk that dual participation will not be detected quickly, thereby allowing additional unallowable costs. A department manager stated that the position responsible for reviewing the report was vacant for several months.

Recommendation #9
We recommend the department run and review its WIC dual certification report monthly to ensure prevention of dual participation by clients.

Tracking Vouchers

To provide WIC assistance, the department issues vouchers to clients. The clients exchange these vouchers at grocery stores for specific food products. Federal regulations require the department to account for the disposition of all vouchers as either issued or voided and, when issued, as either redeemed or unredeemed. The department does this by reviewing reports of the previous day's activity reported by each of the local agencies.

For vouchers voided or reissued, the department requires each local agency to submit a void/reissue receipt. This document informs the department of why vouchers were voided and reissued. To complete the procedure, department personnel match the reasons with the identified voids on a daily report and follow up on any instances that do not appear reasonable. With this procedure, the department can detect cases giving the client benefits in excess of those allowable. In the 12 months from April 2002 to March 2003, department personnel did not investigate any differences between the receipts submitted and the activity reported by local agencies. As a result, vouchers could have been reissued to clients without the initial issuances being voided and the dual issuance would not have been detected.

A department program manager stated that the program was understaffed in the two-year audit period for reasons including staff on medical leave and a hiring freeze. For some of the instances, department personnel thought they may have looked at the documentation, decided that nothing was wrong, and then discarded the evidence of their review.

In our previous audit, we recommended the department establish procedures to ensure completion and documentation of reviews of WIC edit reports. The department did not implement the recommendation.

Recommendation #10
We recommend that the department complete and document daily reviews of WIC voucher activity

WIC Local Agency Monitoring

Federal regulations specify that the state agency administering the WIC program shall conduct monitoring reviews of each local agency at least once every two years, and shall promptly notify any local agencies of findings of non-compliance with program requirements identified in monitoring review.

From July 1, 2001 to March of 2003, the department cancelled 9 of its 35 scheduled monitoring visits to local agencies. These monitoring visits were rescheduled for fiscal years 2002-03 and 2003-04. By canceling these visits, the state failed to complete a monitoring of each local agency once every two years.

For the 26 monitoring visits completed by department staff, we noted 11 reports were completed, three reports were in process, nine reports were not completed and sent to the local agencies for corrective action, one report with findings was not completed accurately and, therefore, the local agency did not complete any follow-up, and two reports with findings were completed, but the department did not approve any corrective action by the local agencies. Department action on monitoring visits is summarized in the following table.

Table 3

WIC Program Monitoring Visits
July 1, 2001 to March 31, 2003

Monitoring Visits Scheduled	35
Cancelled	9
Completed	26
Monitoring Visit Reporting	
Reports Completed	11
Reports Not Completed	9
Reports Sent–Corrective Action Not Approved	2
Report Sent–Need for Action Not Stated	1
Reports in Process	3
	26

Source: Compiled by the Legislative Audit Division

The department attributed this non-compliance to staff turnover in the WIC program. Several people tried to cover two jobs at one time. By the end of March 2003, the department had filled its WIC positions. In addition, a department manager said the department decided to make implementation of new federal regulations relating to the retail operations a higher priority than monitoring some of the agencies. Local agencies certify client eligibility and distribute vouchers. Monitoring is the principle control the department has over the WIC program.

Recommendation #11
We recommend the department complete monitoring visits and the associated reports in accordance with federal regulations.

Child Support System Reconciliation

The department administers the federally assisted Child Support Enforcement Program that distributes over $50 million in child support payments annually. The department uses three computer systems, including the Statewide Accounting, Budgeting and Human Resources System (SABHRS), to account for the collection, payment and transfer of funds related to the Child Support Enforcement Program. The department performs daily cash reconciliations between the systems. Based on the current reconciliations, the department needs in excess of $400,000 in additional cash to pay the liabilities recorded on SABHRS for Child Support program payments at June 30, 2003.

A department official said the department has initiated a project to complete the reconciliation process by identifying the cause of cash difference between the systems. In addition to the daily reconciliations, the department has hired an employee with the computer programming skills to review transaction code to determine the reasons for the differences. Several transactions causing differences have been identified, but the department has not had the resources to research all differences, the official said. This is the fifth consecutive audit report that has addressed concerns related to the adequacy of the child support reconciliation process.

Recommendation #12
We recommend the department immediately resolve unreconciled differences between computer systems used to track and record activity for the Child Support Enforcement Program.

Child Care

The department contracts with 12 local agencies around the state to administer approximately $21.4 million in federally assisted childcare. These Resource and Referral agencies track applications and bills for child care services for each individual child participating in the program. The agencies use federal regulations to determine what costs and amounts are allowable. Personnel at the agencies are responsible for reviewing bills from child care providers for compliance with federal regulations and entering the charges on the department's childcare computer system.

We sampled 45 monthly billing statements from a population of 50,923 billings for individual children and identified seven errors. Four errors resulted in overpayments ranging from under $1 to nearly $31. Three billing statement errors had no payment impact.

Federal guidelines require that the department perform on-site monitoring of Resource and Referral agencies. We found that the department did not conduct on-site monitoring of these agencies for three years. A department official said the department designed and implemented a new computer program for the child care program. Since personnel were assigned to the computer system project, the department did not conduct the monitoring visits.

Periodic monitoring visits provide department personnel the opportunity to detect and correct procedural problems at Resource and Referral agencies as well as provide training to agency staff. The department started monitoring the agencies again in March 2003, and completed field visits to all 12 agencies by August 2003.

Recommendation #13
We recommend the department conduct periodic monitoring of childcare program local agencies.

Low Income Home Energy Assistance Program Reporting

The department receives a Low-Income Home Energy Assistance Program (LIHEAP) grant annually from the federal government.

The department has two years to expend each grant. In fiscal year 2000-01, the federal government initiated a requirement that LIHEAP grantees file an annual Financial Status Report on outstanding grants. On this form, the department must report the total allotment from the "Notice of LIHEAP Grant Award," the amount expended, and the unobligated balance of the federal funds granted.

We compared four LIHEAP Financial Status Reports to the state's accounting records. On two of the reports, the department reported unobligated balances even though all funds for the grant had been obligated and spent. As a result, the department appeared to have not expended the full allotment on grants within the two years for which the allotment was available for expenditure.

A department fiscal manager said the errors occurred because the department reported the carry forward balances from the first year as unobligated balances on the Final Financial Status Report for the grant. Since the department had actually expended the entire allotment for the federal fiscal year 2000 and the federal fiscal year 2001 grants, department personnel filed amended closing reports for the grants.

Recommendation #14
We recommend the department file Financial Status Reports for Low Income Housing Energy Assistance Program grants using correct expenditure information.

Accounting Issues

State law requires the department to input all necessary transactions before the end of the fiscal year to present the receipt, use, and disposition of all money and property, for which it is accountable, in accordance with generally accepted accounting principles. The one exception to this is that the department is required to record certain encumbrances, which are commonly referred to as "A" accruals, as expenditures and liabilities. The Department of Administration establishes state accounting policy to implement this law. The following sections describe instances where the department recorded transactions that did not comply with state law or accounting policy.

Accrual and Deferral Misstatements

The department recorded both a receivable from the federal government and deferred revenue in 26 federal special revenue fund accounts at fiscal year-end 2003 and 31 at fiscal year-end 2002. This means the accounting records showed PHHS had resources not yet earned and receivables from the federal government for the same federal assistance type. Department personnel did not match revenue to the grant expenditures for which federal cash was drawn. As a result, receivables and deferred revenue were overstated by $1,057,785 in fiscal year 2002-03 and $3,457,010 in fiscal year 2001-02 in the Federal Special Revenue Fund.

Recording Receivables

The department recorded an excess payment to a vendor as an advance of $167,811. State accounting policy requires amounts billed to recover expenditures made in error be recorded as accounts receivable. An advance identifies a cash payment that will be expended for valid purposes in a future period. A department official said the receivable from the overpaid vendor was recorded as an advance to identify which unit within the department was responsible for the transaction. The department should follow state accounting policy in recording its receivables on the state's accounting records.

Revenue Accrual Cancellation

At the end of each fiscal year, the department establishes revenue and expenditure accruals based on projected Medicaid services provided during the year. Department policy through fiscal year 2002 stated the remaining accrued receivables and payables after a two-year period be closed into fund balance. This treatment would cause additions and reductions for Direct Entries to Fund Balance on the Schedule of Changes in Fund Balances and Property Held In Trust.

In FY 2003, the department reduced the liabilities estimated in FY 2001 and made an offsetting increase to fund balance. However, the department reduced the corresponding receivable from the federal government to a prior year revenue account. Thus, the prior year revenue activity is understated by $9,302,120 on the Schedule of Total Revenues and Transfers-In. There is no impact on ending fund balances. A department official said state accounting policy did not provide clear guidance on how to record the revenue receivable adjustment. The official confirmed that two different groups of fiscal personnel prepared the liability and receivable transactions, so consistency of the approaches was not considered.

Recommendation #15
We recommend the department:

A. Match expenditures and revenue for each grant in accordance with state accounting policy.

B. Record receivables in accordance with state accounting policy.

C. Record Medicaid expenditure and revenue accrual reductions consistently on the state's accounting records.

State Compliance

We tested the department's compliance with selected state laws and regulations applicable to department operations. The following section describes areas where the department's compliance with state laws can be improved.

County Public Assistance Agreements

Section 53-2-305(1), MCA, requires the department to execute agreements with counties establishing minimum standards of operations for offices of public assistance. The statute specifies terms covering office hours, staffing, program changes, administration of public assistance programs in the county, and office facilities. We found that the department did not have an agreement with four of the 56 counties. Four of the existing agreements did not address all of the contract terms listed in the law, and 10 of the 52 agreements were not signed prior to July 1, 2002, as required by the department. A department official said some terms may have been overlooked in the contract because details such as office location and hours have not changed from previous periods.

Trauma Care System

Section 50-6-402, MCA, requires the department to plan, coordinate, implement, and administer a statewide trauma care system. The statute places responsibility with the department for developing a trauma care system plan and adopting rules to implement the plan. Section 50-6-410, MCA, gives the department the responsibility for reviewing applications and approving facilities to be trauma centers. The law also confers authority on the department to revoke trauma care center designation. A department official said the department did not receive funding for the implementation of the trauma care system laws until recently, so the department did not adopt rules to implement the trauma care system.

Adoption Medical Benefits

Section 42-10-127, MCA, requires the department to develop rules to provide medical assistance benefits to children with an adoption assistance agreement in Montana, but currently residing in another state. The law also addresses children living in Montana with adoption assistance agreements from other states. Although the department is in the process of updating adoption rules and procedures, rules related to this statute have not been approved.

Recommendation #16

We recommend the department:

A. Execute agreements with counties setting standards for operation of offices of public assistance as required by section 53-2-305(1), MCA.

B. Adopt rules necessary to implement the trauma care system in compliance with sections 50-6-402 and 50-6-410, MCA.

C. Adopt rules establishing medical assistance benefits for children with an adoption assistance agreement as required by section 42-10-127, MCA.

Independent Auditor’s Report & Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Public Health and Human Services for each of the fiscal years ended June 30, 2003, and 2002. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and property held in trust of the Department of Public Health and Human Services for each of the fiscal years ended June 30, 2003, and 2002, in conformity with the basis of accounting described in note 1.

Respectfully submitted,
Signature on File
James Gillett, CPA
Deputy Legislative Auditor

August 29, 2003

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PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Agency Fund	Permanent Fund
FUND BALANCE: July 1, 2002	$ (11,404,242)	$ 3,833,026	$ (3,191,277)	$ 4,303,452		$ 11,057,144
PROPERTY HELD IN TRUST: July 1, 2002					$ 964,782	
ADDITIONS						
Budgeted Revenues & Transfers-In	13,483,900	24,877,828	680,778,381			
NonBudgeted Revenues & Transfers-In	159,212	2,269,240	105,202,088	3,081,277		16,278,115
Prior Year Revenues & Transfers-In Adjustments	1,305,018	499,385	(8,118,173)			12,380,754
Direct Entries to Fund Balance	238,487,485	9,415,252	9,110,140			
Additions to Property Held in Trust					62,056,896	
Total Additions	253,435,615	37,061,705	786,972,436	3,081,277	62,056,896	28,658,869
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	255,424,789	32,167,062	734,335,975			
NonBudgeted Expenditures & Transfers-Out	175,440	2,648,609	40,904,784	3,181,533		1,808,027
Prior Year Expenditures & Transfers-Out Adjustments	205,546	(204,829)	11,607,358			
Reductions in Property Held in Trust					61,683,185	
Total Reductions	255,805,775	34,610,842	786,848,117	3,181,533	61,683,185	1,808,027
FUND BALANCE: June 30, 2003	$ (13,774,402)	$ 6,283,889	$ (3,066,958)	$ 4,203,196		$ 37,907,986
PROPERTY HELD IN TRUST: June 30, 2003					$ 1,338,493	

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Enterprise Fund	Agency Fund	Permanent Fund
FUND BALANCE: July 1, 2001	$ (11,653,913)	$ 8,774,815	$ (4,090,680)	$ 4,148,667	$ 875		$ 10,806,495
PROPERTY HELD IN TRUST: July 1, 2001						$ 1,441,847	
ADDITIONS							
Budgeted Revenues & Transfers-In	14,811,205	22,067,425	646,673,592				
NonBudgeted Revenues & Transfers-In	9,373	2,924,558	94,197,146	3,163,988			1,288,267
Prior Year Revenues & Transfers-In Adjustments	(386,789)	(5,963,135)	2,138,426				
Direct Entries to Fund Balance	256,193,230	6,749,166	279,576		(875)		
Additions to Property Held in Trust						56,668,947	
Total Additions	270,627,019	25,778,014	743,288,740	3,163,988	(875)	56,668,947	1,288,267
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	268,243,787	28,978,611	654,371,245				
NonBudgeted Expenditures & Transfers-Out	70,994	3,092,105	79,798,604	3,009,203			1,037,618
Prior Year Expenditures & Transfers-Out Adjustments	2,062,567	(1,350,913)	8,219,488				
Reductions in Property Held in Trust						57,146,012	
Total Reductions	270,377,348	30,719,803	742,389,337	3,009,203		57,146,012	1,037,618
FUND BALANCE: June 30, 2002	$ (11,404,242)	$ 3,833,026	$ (3,191,277)	$ 4,303,452	$ 0		$ 11,057,144
PROPERTY HELD IN TRUST: June 30, 2002						$ 964,782	

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PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits	$ 55,183	$ 569,563				$ 624,746
Charges for Services	14,672,218	12,470,619	$ 3,033,799			30,176,636
Investment Earnings	14,024		20,796	$ 258,943	$ 16,031,629	16,325,392
Fines and Forfeits	48				12,466,407	12,466,455
Sale of Documents, Merchandise and Property	628	177,251				177,879
Rentals, Leases and Royalties	31,782	14,459				46,241
Miscellaneous	17,543	98,952	27,223			143,718
Grants, Contracts, Donations and Abandonments	568	8,816,341	9,257			8,826,166
Other Financing Sources	156,482	3,412,796	41,710,083	2,822,334	160,833	48,262,528
Federal	(346)	2,086,472	733,061,138			735,147,264
Total Revenues & Transfers-In	14,948,130	27,646,453	777,862,296	3,081,277	28,658,869	852,197,025
Less: Nonbudgeted Revenues & Transfers-In	159,212	2,269,240	105,202,088	3,081,277	16,278,115	126,989,932
Prior Year Revenues & Transfers-In Adjustments	1,305,018	499,385	(8,118,173)		12,380,754	6,066,984
Actual Budgeted Revenues & Transfers-In	13,483,900	24,877,828	680,778,381	0	0	719,140,109
Estimated Revenues & Transfers-In	12,249,837	47,747,748	844,221,796			904,219,381
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 1,234,063	$ (22,869,920)	$ (163,443,415)	$ 0	$ 0	$ (185,079,272)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits	$ (446,314)	$ (387,796)				$ (834,110)
Taxes		(9,400,000)				(9,400,000)
Charges for Services	1,953,175	(8,763,414)	$ (391,705)			(7,201,944)
Investment Earnings	14,024		(928,209)			(914,185)
Fines and Forfeits	(126,491)		(15,000)			(141,491)
Sale of Documents, Merchandise and Property	(1,172)	(147,428)				(148,600)
Rentals, Leases and Royalties	(50,368)	(327,290)				(377,658)
Miscellaneous	(108,445)	(6,098,365)				(6,206,810)
Grants, Contracts, Donations and Abandonments		5,919,769	(1,830,000)			4,089,769
Other Financing Sources		(1,977,288)	(33,038,321)			(35,015,609)
Federal	(346)	(1,688,108)	(127,240,180)			(128,928,634)
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 1,234,063	$ (22,869,920)	$ (163,443,415)	$ 0	$ 0	$ (185,079,272)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits	$ 229,167	$ 567,125				$ 796,292
Taxes		(836,105)				(836,105)
Charges for Services	14,441,260	7,435,734	$ 3,268,002			25,144,996
Investment Earnings	16,441		40,145	$ 276,289	(11,165,552)	(10,832,677)
Fines and Forfeits	92	8	34,528		12,431,607	12,466,235
Sale of Documents, Merchandise and Property	1,552	171,865				173,417
Rentals, Leases and Royalties	35,389					35,389
Miscellaneous	(18,997)	77,808	3,205			62,016
Grants, Contracts, Donations and Abandonments		8,226,777				8,226,777
Other Financing Sources	(271,115)	2,355,571	35,791,125	2,887,699	22,212	40,785,492
Federal		1,030,065	703,872,159			704,902,224
Total Revenues & Transfers-In	14,433,789	19,028,848	743,009,164	3,163,988	$ 1,288,267	780,924,056
Less: Nonbudgeted Revenues & Transfers-In	9,373	2,924,558	94,197,146	3,163,988	1,288,267	101,583,332
Prior Year Revenues & Transfers-In Adjustments	(386,789)	(5,963,135)	2,138,426			(4,211,498)
Actual Budgeted Revenues & Transfers-In	14,811,205	22,067,425	646,673,592	0	0	683,552,222
Estimated Revenues & Transfers-In	11,880,837	46,160,922	796,314,640			854,356,399
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 2,930,368	$ (24,093,497)	$ (149,641,048)	$ 0	$ 0	$ (170,804,177)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits	$ (270,931)	$ (394,223)				$ (665,154)
Taxes		(9,114,190)				(9,114,190)
Charges for Services	3,480,165	(9,508,651)	$ 308,971			(5,719,515)
Investment Earnings	16,441		(908,936)			(892,495)
Fines and Forfeits	(126,508)	8	(15,000)			(141,500)
Sale of Documents, Merchandise and Property	(248)	(146,294)				(146,542)
Rentals, Leases and Royalties	(46,761)	(338,587)				(385,348)
Miscellaneous	(111,790)	(4,872,938)	(912)			(4,985,640)
Grants, Contracts, Donations and Abandonments		4,430,707	(2,130,000)			2,300,707
Other Financing Sources		(1,246,433)	(32,950,000)			(34,196,433)
Federal	(10,000)	(2,902,896)	(113,945,171)			(116,858,067)
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 2,930,368	$ (24,093,497)	$ (149,641,048)	$ 0	$ 0	$ (170,804,177)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	ADDICTIVE & MENTAL DISORDERS	CHILD & FAMILY SERVICES	CHILD SUPPORT ENFORCEMENT	DIRECTOR'S OFFICE	DISABILITY SERVICES DIVISION	FISCAL SERVICES DIVISION	HEALTH POLICY & SERVICES	HUMAN AND COMMUNITY SERVICES	OPERATIONS & TECHNOLOGY	QUALITY ASSURANCE DIVISION	R04	SENIOR & LONG-TERM CARE	Total
PROGRAM (SUBCLASS) EXPENDITURES & TRANSFERS-OUT													
Personal Services													
Salaries	$ 17,328,288	$ 10,150,158	$ 5,141,473	$ 2,538,599	$ 17,452,859	$ 1,557,438	$ 6,559,627	$ 13,622,069	$ 2,955,102	$ 3,662,974		$ 5,065,888	$ 86,034,475
Hourly Wages					19,604								19,604
Other Compensation					1,000		(1,246)						(246)
Employee Benefits	6,072,948	2,969,197	1,439,005	416,928	5,961,737	451,450	1,731,802	4,059,451	781,399	983,445		1,721,885	26,589,247
Total	23,401,236	13,119,355	6,580,478	2,955,527	23,435,200	2,008,888	8,290,183	17,681,520	3,736,501	4,646,419		6,787,773	112,643,080
Operating Expenses													
Other Services	4,367,700	978,747	761,526	2,061,486	2,870,641	1,901,363	14,330,653	2,188,738	19,345,843	1,331,496		2,948,369	53,086,562
Supplies & Materials	2,808,049	167,617	92,538	181,614	739,508	107,840	2,094,594	354,337	324,473	69,622		729,789	7,669,981
Communications	148,468	453,856	568,853	93,867	312,982	41,026	307,758	755,600	937,191	149,944		129,186	3,898,731
Travel	78,936	358,654	7,963	81,759	245,856	4,496	575,331	246,451	17,358	194,273		98,950	1,910,027
Rent	524,109	1,308,113	472,384	98,191	656,413	49,916	375,960	1,548,005	284,100	413,177		205,324	5,935,692
Utilities	738,750	15,860		1,473	335,477		522	107,207		825		179,277	1,379,391
Repair & Maintenance	191,182	110,617	37,305	13,239	158,509	4,051	129,683	197,639	74,292	5,839		151,451	1,073,807
Other Expenses	276,841	71,053	190,605	50,846	563,947	922,969	367,299	104,270	148,854	10,261		232,307	2,939,252
Goods Purchased For Resale	104,604	21			47,392		690						152,707
Total	9,238,639	3,464,538	2,131,174	2,582,475	5,930,725	3,031,661	18,182,490	5,502,247	21,132,111	2,175,437		4,674,653	78,046,150
Equipment & Intangible Assets													
Equipment	48,498	16,513			(422)		384,943	31,647	(2,393)	11,081		20,462	510,329
Intangible Assets							10						10
Installmnt Purchases-Equip-Nb	18,230												18,230
Total	66,728	16,513			(422)		384,953	31,647	(2,393)	11,081		20,462	528,569
Capital Outlay													
Buildings					(97)		(29,444)						(29,541)
Total					(97)		(29,444)						(29,541)
Local Assistance													
From State Sources	490,746												490,746
Total	490,746												490,746
Grants													
From State Sources	61,625						766,539					1,218,356	2,046,520
From Federal Sources	9,443,754	5,208,601		22,147			5,756,350	14,375,891		411,605		5,751,445	40,969,793
From Other Sources							402,286						402,286
Total	9,505,379	5,208,601		22,147			6,925,175	14,375,891		411,605		6,969,801	43,418,599
Benefits & Claims													
To Individuals	88,467,388	23,555,846			89,375,552		270,943,454	80,018,648				170,299,019	722,659,907
From State Sources												28,788	28,788
From Federal Sources							8,573,882	64,960,929					73,534,811
Insurance Payments					90								90
Total	88,467,388	23,555,846			89,375,642		279,517,336	144,979,577				170,327,807	796,223,596
Transfers													
Accounting Entity Transfers	2,828,767	13,065,436	3,487,960	(952,398)	4,907,415	(2,471,489)	8,439,328	21,926,582	(5,132,493)	207,949	$ 199,702	1,022,258	47,529,017
Total	2,828,767	13,065,436	3,487,960	(952,398)	4,907,415	(2,471,489)	8,439,328	21,926,582	(5,132,493)	207,949	199,702	1,022,258	47,529,017
Debt Service													
Bonds	1,921,093				1,087,832								3,008,925
Loans	14,693	6,793						708				1,912	24,106
Capital Leases					2,334							4,309	6,643
Installment Purchases	18,916	1,737		10,461	7,410	20,889	17,329	14,822	261,500			11,340	364,404
Total	1,954,702	8,530		10,461	1,097,576	20,889	17,329	15,530	261,500			17,561	3,404,078
Total Expenditures & Transfers-Out	$ 135,953,585	$ 58,438,819	$ 12,199,612	$ 4,618,212	$ 124,746,039	$ 2,589,949	$ 321,727,350	$ 204,512,994	$ 19,995,226	$ 7,452,491	$ 199,702	$ 189,820,315	$ 1,082,254,294
EXPENDITURES & TRANSFERS-OUT BY FUND													
General Fund	$ 47,273,369	$ 22,003,523	$ 2,812,819	$ 297,770	$ 43,567,656	$ 72,919	$ 67,649,331	$ 26,116,834	$ 893,829	$ 1,434,044		$ 43,683,681	$ 255,805,775
State Special Revenue Fund	10,416,814	1,777,060	1,290,305	1,390,993	3,068,018	(123,226)	5,404,802	1,487,332	766,079	354,072		8,778,593	34,610,842
Federal Special Revenue Fund	76,169,702	34,658,236	8,096,488	2,929,449	77,022,532	2,640,256	248,673,217	176,908,828	16,726,993	5,664,375		137,358,041	786,848,117
Debt Service Fund	2,093,700				1,087,833								3,181,533
Permanent Fund									1,608,325		$ 199,702		1,808,027
Total Expenditures & Transfers-Out	135,953,585	58,438,819	12,199,612	4,618,212	124,746,039	2,589,949	321,727,350	204,512,994	19,995,226	7,452,491	199,702	189,820,315	1,082,254,294
Less: Nonbudgeted Expenditures & Transfers-Out	3,377,237	12,702,041	3,458,985	(1,092,446)	4,861,746	(1,286,946)	8,206,884	22,655,279	(5,444,612)	117,380	199,702	963,141	48,718,391
Prior Year Expenditures & Transfers-Out Adjustments	2,355,939	19,108	53,053	138,419	1,123,407	(1,088,209)	2,491,573	652,851	403,515	205,214		5,253,205	11,608,075
Actual Budgeted Expenditures & Transfers-Out	130,220,409	45,717,670	8,687,574	5,572,239	118,760,886	4,965,104	311,028,893	181,204,864	25,036,323	7,129,897	0	183,603,969	1,021,927,828
Budget Authority	143,689,686	52,594,944	12,378,650	7,389,443	123,189,226	5,488,398	335,294,509	197,968,602	27,351,495	7,885,176		193,387,545	1,106,617,674
Unspent Budget Authority	$ 13,469,277	$ 6,877,274	$ 3,691,076	$ 1,817,204	$ 4,428,340	$ 523,294	$ 24,265,616	$ 16,763,738	$ 2,315,172	$ 755,279	$ 0	$ 9,783,576	$ 84,689,846
UNSPENT BUDGET AUTHORITY BY FUND													
General Fund	$ 3,901,368	$ 1,931,868	$ 325,340	$ 209,708	$ 1,349,780	$ 131,212	$ 1,782,127	$ 1,391,315	$ 741,137	$ 369,225		$ 2,778,092	$ 14,911,172
State Special Revenue Fund	1,605,545	31,349	2,022,409	392,738	42,807	121,227	3,368,798	423,371	884,603	30,029		642,343	9,565,219
Federal Special Revenue Fund	7,962,364	4,914,057	1,343,327	1,214,758	3,035,753	270,855	19,114,691	14,949,052	689,432	356,025		6,363,141	60,213,455
Unspent Budget Authority	$ 13,469,277	$ 6,877,274	$ 3,691,076	$ 1,817,204	$ 4,428,340	$ 523,294	$ 24,265,616	$ 16,763,738	$ 2,315,172	$ 755,279	$ 0	$ 9,783,576	$ 84,689,846

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	ADDICTIVE & MENTAL DISORDERS	CHILD & FAMILY SERVICES	CHILD SUPPORT ENFORCEMENT	DIRECTOR'S OFFICE	DISABILITY SERVICES DIVISION	FISCAL SERVICES DIVISION	HEALTH POLICY & SERVICES	HUMAN AND COMMUNITY SERVICES	OPERATIONS & TECHNOLOGY	QUALITY ASSURANCE DIVISION	R04	SENIOR & LONG-TERM CARE	Total
PROGRAM (SUBCLASS) EXPENDITURES & TRANSFERS-OUT													
Personal Services													
Salaries	$ 17,334,898	$ 10,126,805	$ 6,090,175	$ 2,190,051	$ 16,825,276	$ 1,485,222	$ 6,084,632	$ 13,486,017	$ 2,787,208	$ 3,370,428		4,789,080	$ 84,569,792
Hourly Wages	88				4,546								4,634
Other Compensation							5,379						5,379
Employee Benefits	5,712,193	2,853,553	1,566,302	384,394	5,435,470	422,334	1,572,943	3,759,510	721,063	887,699		1,511,487	24,826,948
Total	23,047,179	12,980,358	7,656,477	2,574,445	22,265,292	1,907,556	7,662,954	17,245,527	3,508,271	4,258,127		$ 6,300,567	109,406,753
Operating Expenses													
Other Services	5,714,171	1,031,626	1,419,813	2,120,167	2,583,295	1,940,925	11,431,097	2,701,064	19,742,266	1,321,340		2,818,328	52,824,092
Supplies & Materials	2,737,113	368,003	113,483	160,746	1,075,487	118,235	1,884,273	801,089	160,489	192,942		671,524	8,283,384
Communications	161,926	464,372	619,792	89,881	302,613	37,897	307,509	1,062,601	740,122	141,004		130,408	4,058,125
Travel	157,044	605,411	29,143	70,767	297,210	5,326	621,446	415,151	41,561	217,802		134,693	2,595,554
Rent	507,547	1,054,310	464,758	90,314	603,545	49,086	398,393	1,552,070	259,748	429,895		179,263	5,588,929
Utilities	802,204	12,848		1,297	332,240	1,078	859	81,688	0	4,732		168,684	1,405,630
Repair & Maintenance	125,238	47,499	32,775	13,042	271,602	5,392	113,970	174,336	70,678	6,424		132,976	993,932
Other Expenses	174,506	97,244	249,265	92,994	105,357	853,529	288,503	140,949	159,570	22,936		198,586	2,383,439
Goods Purchased For Resale	105,056				47,474		171	(72)				11	152,640
Total	10,484,805	3,681,313	2,929,029	2,639,208	5,618,823	3,011,468	15,046,221	6,928,876	21,174,434	2,337,075		4,434,473	78,285,725
Equipment & Intangible Assets													
Equipment	23,990	(23,127)			53,355		83,956	65,991	55,130	17,499		29,187	305,981
Intangible Assets							12,500		5,000				17,500
Total	23,990	(23,127)			53,355		96,456	65,991	60,130	17,499		29,187	323,481
Capital Outlay													
Buildings		28,398					109,900						138,298
Total		28,398					109,900						138,298
Local Assistance													
From State Sources	1,348,809												1,348,809
Total	1,348,809												1,348,809
Grants													
From State Sources	225,288	40,343					79,358					1,197,867	1,542,856
From Federal Sources	6,830,675	3,916,808		22,896			7,171,431	13,251,416		370,596		5,684,528	37,248,350
From Other Sources							337,129						337,129
Total	7,055,963	3,957,151		22,896			7,587,918	13,251,416		370,596		6,882,395	39,128,335
Benefits & Claims													
To Individuals	93,055,261	24,895,506			85,195,371		265,703,292	84,696,766				156,935,220	710,481,416
From Federal Sources							8,901,450	55,113,261					64,014,711
Total	93,055,261	24,895,506			85,195,371		274,604,742	139,810,027				156,935,220	774,496,127
Transfers													
Accounting Entity Transfers	2,840,605	10,390,033	3,564,677	(1,259,063)	4,641,703	(268,702)	7,903,720	21,036,956	(8,637,898)	(91,997)	$ (526)	809,522	40,929,030
Total	2,840,605	10,390,033	3,564,677	(1,259,063)	4,641,703	(268,702)	7,903,720	21,036,956	(8,637,898)	(91,997)	(526)	809,522	40,929,030
Debt Service													
Bonds	1,921,071				1,088,132								3,009,203
Loans		9,966						854				1,131	11,951
Leases					4,517							4,309	8,826
Installment Purchases	44,502	2,682	14,265	22,021	7,410	40,892	17,881	55,737	229,096			12,285	446,771
Total	1,965,573	12,648	14,265	22,021	1,100,059	40,892	17,881	56,591	229,096			17,725	3,476,751
Total Expenditures & Transfers-Out	$ 139,822,185	$ 55,922,280	$ 14,164,448	$ 3,999,507	$ 118,874,603	$ 4,691,214	$ 313,029,792	$ 198,395,384	$ 16,334,033	$ 6,891,300	$ (526)	$ 175,409,089	$ 1,047,533,309
EXPENDITURES & TRANSFERS-OUT BY FUND													
General Fund	$ 54,419,479	$ 24,565,587	$ 1,150,882	$ 335,876	$ 44,276,446	$ 2,053,714	$ 72,395,723	$ 26,792,912	$ (484,041)	$ 1,435,660		43,435,110	$ 270,377,348
State Special Revenue Fund	8,704,225	1,511,566	3,555,701	1,239,230	1,047,196	278,274	4,112,469	1,671,620	631,365	247,569		7,720,587	30,719,802
Federal Special Revenue Fund	74,777,410	29,845,127	9,457,865	2,424,401	72,462,829	2,359,226	236,521,600	169,930,852	15,149,090	5,208,071	$ (526)	124,253,392	742,389,337
Debt Service Fund	1,921,071				1,088,132								3,009,203
Permanent Fund									1,037,619				1,037,619
Total Expenditures & Transfers-Out	139,822,185	55,922,280	14,164,448	3,999,507	118,874,603	4,691,214	313,029,792	198,395,384	16,334,033	6,891,300	(526)	$ 175,409,089	1,047,533,309
Less: Nonbudgeted Expenditures & Transfers-Out	3,027,514	10,376,693	3,583,868	(1,247,334)	4,752,379	(268,703)	7,992,306	66,392,412	(8,320,820)	(90,183)		810,392	87,008,524
Prior Year Expenditures & Transfers-Out Adjustments	1,166,193	(115,003)	11,430	(3,825)	(260,632)		7,146,133	882,389	(238,903)	68,737	(526)	275,149	8,931,142
Actual Budgeted Expenditures & Transfers-Out	135,628,478	45,660,590	10,569,151	5,250,666	114,382,856	4,959,917	297,891,353	131,120,583	24,893,756	6,912,746	0	174,323,548	951,593,643
Budget Authority	141,236,885	51,228,617	11,430,202	5,884,310	116,801,514	5,515,547	321,533,509	185,085,182	25,363,925	7,259,142		183,197,836	1,054,536,669
Unspent Budget Authority	$ 5,608,407	$ 5,568,027	$ 861,052	$ 633,644	$ 2,418,658	$ 555,630	$ 23,642,156	$ 53,964,599	$ 470,169	$ 346,396	$ 0	$ 8,874,288	$ 102,943,026
UNSPENT BUDGET AUTHORITY BY FUND													
General Fund	$ 1,124,063	$ 48,985		$ 13,860	$ (1,648)	$ 87,490	$ 339,559	$ 1,796	$ 21,464	$ 2,541		4,825	$ 1,642,935
State Special Revenue Fund	1,351,375	49,595	$ 239,124	119,425	90,493	70,211	3,159,014	118,463	93,374	34,614		364,507	5,690,195
Federal Special Revenue Fund	3,132,969	5,469,447	621,928	500,359	2,329,813	397,929	20,143,583	53,844,340	355,331	309,241		8,504,956	95,609,896
Unspent Budget Authority	$ 5,608,407	$ 5,568,027	$ 861,052	$ 633,644	$ 2,418,658	$ 555,630	$ 23,642,156	$ 53,964,599	$ 470,169	$ 346,396	$ 0	$ 8,874,288	$ 102,943,026

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State and Federal Special Revenue, Debt Service, and Permanent Funds). In applying the modified accrual basis, the department records:

> Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.
>
> Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual leave and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Enterprise) and Fiduciary (Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period earned, when measurable, and records expenses in the period incurred, when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; and goods or equipment ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.

The department conducts program activities in the fund categories as listed below.

Governmental Fund Category

General Fund - to account for all financial resources except those required to be accounted for in another fund.

State Special Revenue Fund - to account for proceeds of specific state and private revenue sources legally restricted to expenditures for specific purposes. Activity in this fund includes the Public Health Laboratory, Free Weatherization, Child Support Incentive payments, cigarette tax revenue, and Third Party Liability recoveries. The Fund also accounts for activity at the Eastmont Human Services Center, the Montana Developmental Center, the Montana Mental Health Nursing Care Center, the Montana Chemical Dependency Center, and the Montana State Hospital supported by insurance and individual payments.

Federal Special Revenue Fund - to account for proceeds of specific federal revenue sources legally restricted to expenditures for specific purposes. The majority of the activity recorded in the department's Federal Special Revenue Fund include federal grants such as Medicaid; Temporary Assistance to Needy Families (TANF); Low-Income Home Energy Assistance Program (LIHEAP); Vocational Rehabilitation; Child Support Enforcement; Foster Care; Women, Infants, and Children (WIC); Food Stamps; Child and Adult Nutrition; Children's Health Insurance Plan (CHIP); Social Services Block Grant; and Child Care Development Fund Grant programs.

Permanent Funds – to account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the department's programs. The department uses these funds to account for Endowment for Children, and the Montana Tobacco Settlement funds.

Debt Service Fund - to account for accumulated resources for the payment of general long-term debt principal and interest. The department uses these funds to account for the Montana State Hospital and Montana Developmental Center bond payments.

Proprietary Fund Category

Enterprise Fund - to account for operations (a) financed and operated on a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges or (b) where the Legislature has decided that periodic determination of revenues earned or expenses incurred or net income is appropriate. The department's use of this fund in fiscal year 2001-02 was limited to correcting errors made in the fund in prior periods.

Fiduciary Fund Category

Agency Funds - to account for resources held by the state in a custodial capacity. The department uses Agency Funds to account for child support payments collected on behalf of children and distributed to custodial parents or guardians. Agency Funds also include moneys belonging to foster care children, residents of care facilities, and damage deposits for departmental housing.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets the department has placed in the fund, resulting in a negative General Fund balance for each of the fiscal years ended June 30, 2002 and June 30, 2003.

3. Direct Entries to Fund Balance

The department recorded $256,193,230 and $238,487,485 of net direct entries to fund balance in the General Fund during fiscal years 2001-02 and 2002-03, respectively. Most of the Direct Entries to Fund balance in the General Fund in fiscal years 2001-02 and 2002-03, result from entries generated by SABHRS to reflect the flow of resources within the fund between separate agencies.

4. Nonbudgeted Activity

The department recorded Nonbudgeted Revenues and Transfers-In related to food stamp benefits of $64,421,443 and $54,010,601 in the Federal Special Revenue Fund in fiscal years 2002-03 and 2001-02, respectively. Other Financing Sources in the Federal Special Revenue Fund consists primarily of transfers related to the department's cost allocation plan in fiscal years 2002-03 and 2001-02.

In the Debt Service Fund, nonbudgeted activity consists of $258,942 and $276,289 in Investment Earnings and $2,822,334 and $2,887,699 in Other Financing Sources for fiscal years 2002-03 and 2001-02, respectively. The investment earnings relate to money held for servicing debt on the Montana Developmental Center and the Montana State Hospital. The Other Financing Sources are transfers of funds collected as charges for services provided by the center and hospital and pledged to meet principal and interest payments on the bonds.

5. Indirect Cost Transfers

Costs which benefit several activities administered by the department are allocated to those activities through the department's cost allocation plan. The department makes accounting entity transfers for the non-general fund portions of its servicing activities as follows:

Division	Fiscal Year 2002-03	Fiscal Year 2001-02
Human & Community Services	$ 21,926,582	$ 21,036,956
Child & Family Services	13,065,436	10,390,033
Director's Office	(952,397)	(1,259,063)
Child Support Enforcement	3,487,960	3,564,677
Health & Policy Services	8,439,328	7,903,720
Quality Assurance	207,950	(91,997)
Operations & Technology	(6,740,819)	(9,675,517)
Disability Services	3,861,542	3,650,646
Fiscal Services	(2,471,489)	(268,702)
Senior & Long-term Care	1,022,256	809,522
Addictive & Mental Disorders	1,052,306	943,962
Total	$ 42,898,655	$ 37,004,237

The Fiscal Services Division was established in February 2002 and consists of units previously administered by Operations and Technology Division. The differences in indirect cost transfers between fiscal years for the Fiscal Services and the Operations and Technology Divisions reflect the reorganization. The above amounts also include corrections of errors made in the immediately preceding years.

6. Expenditure With R04 (Subclass)

In 2001-02 and 2002-03 there are expenditure transactions recorded in subclass R04 on the Schedule of Total Expenditures & Transfers-Out. These are related to non-budgeted accounting entity transfers. Fiscal year 2002-03 activity should have been charged to the Operations and Technology program. Fiscal year 2001-02 activity should have been charged to the Human and Community Services program.

7. Montana Tobacco Settlement Trust Fund

Section 17-6-601, MCA, established the Montana Tobacco Settlement Trust Fund for distributing nine-tenths of the interest and income from this trust fund to the State Special Revenue Fund. The

Prior Year Revenues & Transfers-In Adjustments of $12,380,754 reported on the Schedule of Total Revenues & Transfers-In for the fiscal year ended June 30, 2003, in the Permanent Fund reflects investment earnings of the fund in the fiscal year ended June 30, 2002.

8. Residual Transfer Adjustment

Section 90-7-221, MCA, authorizes the department to deposit reimbursements for services at the Montana State Hospital and the Montana Mental Health Nursing Care Center in a State Special Revenue Fund account to provide resources for payment of principal and interest on bonds sold to finance improvements at the Montana State Hospital. The statute also directs that the excess collections beyond those needed for debt service be deposited in the General Fund as required by section 53-1-413, MCA. The Prior Year Revenue and Transfer-In Adjustment amount reported on the Schedule of Total Revenues and Transfers-In and Changes in Fund Balance and Property Held in Trust for the fiscal year ended June 30, 2002, includes a transfer of $5,007,663 from the State Special Revenue Fund.

Department Response

DEPARTMENT OF
PUBLIC HEALTH AND HUMAN SERVICES

JUDY MARTZ
GOVERNOR

GAIL GRAY, Ed.D.
DIRECTOR

STATE OF MONTANA

RECEIVED
NOV 1 4 2003
LEGISLATIVE AUDIT DIV.

November 12, 2003

Scott A. Seacat
Legislative Auditor
Room 135, State Capitol
PO Box 201705
Helena MT 59620-1705

Dear Mr. Seacat:

We have reviewed the recommendations in the Department of Public Health and Human Services Financial Compliance Audit for the two fiscal years ending June 30, 2003. Our responses follow:

Recommendation 1:
We recommend the department maintain state expenditure of substance abuse at the level required by the Substance Abuse Prevention & Treatment grant.

Concur
The department will ensure future state spending levels for the Substance Abuse and Prevention grant meet the level of effort requirement. Addictive and Mental Disorders Division personnel are currently working with SAMHSA on resolution of the federal fiscal year 2001 shortfall.

Recommendation 2:
We recommend the department increase prevention activities to meet Substance Abuse Prevention & Treatment grant requirements.

Concur
The department has identified adequate prevention expenditures to satisfy the federal fiscal year 2001 requirement and adjusted the state's financial records accordingly.

Recommendation 3:
We recommend the department strengthen procedures to ensure client files document resource eligibility requirements before vocational rehabilitation services are provided.

Concur

The department will reinforce and/or strengthen vocational rehabilitation procedures involving client file documentation by 1) training all affected staff by the end of December 2003, 2) highlighting the importance of the annual financial review during ongoing training, 3) increasing the importance of financial documentation during case auditing and 4) strengthening Montana's requirements for the standard of proof concerning trust funds.

Recommendation 4: We recommend the department charge only payroll costs incurred within the grant period.

Concur
The department has reviewed the costs in question and adjusted the expenditures to the appropriate federal fiscal year. The Vocational Rehabilitation budget staff will continue to monitor the monthly expenditure reports and ensure they are charged to the correct grant period.

In addition to the specific actions by the Vocational Rehabilitation staff a department wide payroll monitoring procedure has been implemented. This new procedure will provide an additional level of assurance that all payroll costs within DPHHS are charged to the correct grant period.

Recommendation 5:
We recommend the department ensure the RSA-2 Program Cost Report includes only costs related to the period covered by the report.

Concur
In the future, all financial reports completed by the Vocational Rehabilitation budget analyst will be reviewed by the Disability Services Division Financial Services Bureau Chief prior to the submission of the reports.

Recommendation 6:

We recommend the department improve the accuracy of its administrative cost allocation to the Foster Care and Adoption Assistance programs.

Concur
The department has completed all major accounting changes required to more accurately reflect the administrative burden of the Foster Care and Adoption Assistance grants. Several additional minor accounting improvements will be completed by December 31, 2003.

Recommendation 7:
We recommend the department provide supervisory oversight to ensure personnel make weekly transfers from the Title IV-E Foster Care to the Adoption Assistance program or administrative expenses in compliance with the federal cash management agreement.

Concur
The department will ensure that the transfers are completed weekly as agreed upon. Once recommendation 6 is fully implemented the transfers will no longer be necessary and the language will be removed from the cash management agreement.

Recommendation 8:
We recommend the department perform reconciliations of Foster Care cash draws according to department policy to ensure compliance with federal requirements.

Concur
The Fiscal Services Division has developed a work plan to review the supervisory responsibilities within the division. Included in the development and implementation of this work plan is a review of all division policies, including cash reconciliations, and the methods used to ensure they are accomplished timely.

Recommendation 9:
We recommend the department run and review its WIC dual certification report monthly to ensure prevention of dual participation by clients.

Concur
The WIC program has implemented procedures to ensure that the dual certification report is run and reviewed by the last day of the month following the reporting period.

Recommendation 10:
We recommend that the department complete and document daily reviews of WIC voucher activity.

Concur
Procedures have been implemented to ensure WIC personnel complete a weekly review of the daily void/reissue receipts. All documentation will include the follow-up and justification/clarification of noted inconsistencies.

Recommendation 11:
We recommend the department complete monitoring visits and the associated reports in accordance with federal regulations.

Concur
The WIC program will ensure the required federal monitoring requirements are met by tracking the visits via the annual monitoring spreadsheet. The timely performance of monitoring visits and related report submissions will be included as a performance measure in all applicable staff appraisals.

Recommendation 12:
We recommend the department immediately resolve unreconciled differences

between computer system used to track and record activity for the Child Support Enforcement Program.

Concur
The department is working diligently to complete a review of all available financial data. Upon completion of the review an adjusting journal to bring the two systems into balance will be completed.

A daily reconciliation procedure has been implemented to ensure future imbalances are detected and resolved timely.

Recommendation 13:
We recommend the department conduct periodic monitoring of childcare program local agencies.

Concur
The department agrees that a monitoring program is a necessary component of the management of the Child Care Development Fund to assure that funds are used appropriately. A contract-monitoring program is currently established and is planned to continue.

Recommendation 14:
We recommend the department file Financial Status Reports for Low Income Housing Energy Assistance Program grants using correct expenditure information.

Concur
The Fiscal Services and Human and Community Services Divisions have implemented procedures to ensure that all future LIEAP financial reports will be filed accurately.

Recommendation 15a:
We recommend the department match expenditures with revenue for each grant in accordance with state accounting policy.

Concur
The department has implemented a procedure which will strengthen the ongoing revenue adjustment practices. Improving the ongoing activities will allow us to demonstrate compliance with state accounting policies.

Recommendation 15b:
We recommend the department record receivables in accordance with state accounting policy.

Concur
The department has policies in place directing the appropriate designation of receivables. The item in question was recorded previous to the policy implementation and subsequently overlooked during clean up efforts. The receivable has been moved

to the appropriate account and additional review of the categorization of existing assets is being performed.

Recommendation 15c:
We recommend the department record Medicaid expenditure accrual reductions consistently on the state's accounting records.

Concur
The department updated its fund balance policies and provided a refresher training course to all general ledger accountants.

Recommendation 16a:
We recommend the department execute agreements with counties setting standards for operation of offices of public assistance as required by section 53-2-305(1).

Concur
All county operating agreements have been updated and reviewed for completeness.

Recommendation 16b:
We recommend the department adopt rules necessary to implement he trauma care system in compliance with section 50-6-02 and 50-6-410.

Concur
The department will continue striving towards compliance with the statutes with current resources, while pursuing additional funding opportunities.

Recommendation 16c:
We recommend the department adopt rules establishing medical assistance benefits for children with an adoption assistance agreement as required by section 42-10-127

Concur
The department will adopt rules as recommended.

I would like to thank your staff for their professionalism and cooperation during this audit.

Sincerely,

Gail Gray

Gail Gray, Ed.D
Director